

Rule 14 QUALITY REVIEW PROGRAM

- 14.1 There is hereby established a Quality Review Program (the "Program"). The purpose of the Program is to improve the quality of financial reporting and to assure that the public can rely on the fairness of presentation of financial information on which licensees issue reports. The Program emphasizes education and rehabilitation rather than disciplinary action. Appropriate educational programs or procedures will ordinarily be recommended or required where reporting does not comply with appropriate professional standards. However, when a licensee is unwilling or unable to comply with such standards, or a licensee's professional work is so egregious as to warrant disciplinary action, such action may be taken as the appropriate means of protecting the public interest.

14.2 **QUALITY REVIEW COMMITTEE**

(a) The Quality Review Committee (the Committee) will assist in the implementation and administration of the Program. The Committee's responsibilities will include:

- (1) Developing procedures for the internal operation of the Committee,
- (2) Developing criteria for assignment of reviewers to specific tasks,
- (3) Assisting the Board in the selection and training of reviewers of reports,
- (4) Evaluating the findings of the reviewers of reports and making reports and recommendations to the Board,
- (5) Compiling and reporting to the Board statistics on the impact and effect of the Program, and
- (6) Considering such other matters and performing such other duties regarding the Program as may be assigned to it by the Board from time to time.

(b) The composition of the Committee:

- (1) The Committee shall be comprised of nine licensees appointed by the Board.
- (2) The President shall annually appoint one member of the Board who shall be chair.
- (3) The remaining members shall be selected at the Board's discretion from nominees submitted by professional accounting associations or from other qualified licensees identified by the Board. Their terms shall be three years and shall be staggered.

(c) The qualifications for serving as a member are:

- (1) Licensed by and in good standing with the Board.
- (2) The licensee or firm with which he is associated has completed an acceptable peer review, pursuant to Rule 14.3(d), or has completed the Board's Quality Review, both including a minimum of one category of compilation, review, and/or audit with no substandard report within three years immediately preceding the appointment; and
- (3) The licensee or his firm has no pending investigations or disciplinary matters by the Board.

(d) The chair shall vote only in case of a tie.

14.3 **QR SURVEY**

Quality Review (QR) is to be conducted annually on one third of the licensees on a rotating basis. QR may be required more frequently as provided herein.

(a) The Board will mail a QR survey to one-third of its licensees annually. The recipient shall return the completed survey form within the time specified and submit reports, for QR purposes, when reports have been issued during the QR period as stated in the instructions in said survey form.

(b) Failure to respond to the QR survey mailed by the Board or to submit reports for QR purposes, when reports were issued during the subject period, shall be a basis for the non-renewal of the license, after notice and hearing, as provided by Ark. Code Ann. § 17-12-507.

(c) In response to the QR survey, the licensee shall submit an audit report, review report, governmental audit report, examination of prospective financial information, and compilation report with disclosures if any were issued and, if not, a compilation report without disclosures, issued by the licensee during the 12 month period identified in the QR survey. Submission to the Board of an acceptable peer review report, performed by a CPA, PA or firm, licensed in this or another state, and the individual CPA or PA is qualified pursuant to the provisions of Rule 14.4-14.5(a)-(e), or 14.11, which is conducted consistent with a peer review program authorized by a professional accounting organization and approved by the Board, dated within the QR period or the twenty-four months immediately preceding the QR period, will exempt the licensee from QR on that type of report. For purposes of this paragraph, acceptable peer review reports shall be those classifications designated by the peer review program that are generally comparable to acceptable and marginal QR reports as defined in Rule 14.8, and which the Board identifies in its approval of the individual peer review program as comparable to acceptable and marginal QR reports.

14.4 QR REVIEWERS

The QR reviewers shall have the following qualifications:

- (a) Licensed by and in good standing with the Board,
- (b) The licensee or firm in which he is associated has completed an acceptable peer review pursuant to Rule 14.3(d), or has completed the Board's Quality Review both including a minimum of one category of compilation, review, and/or audit with no substandard report within three years immediately preceding the appointment,
- (c) The licensee or his firm has no pending investigation or disciplinary matters by the Board, and
- (d) Shall have a minimum of 5 years experience in accounting and auditing, including experience in the type of report he will be reviewing.

14.5 TEAM CAPTAINS

Team captains shall have the following qualifications:

- (a) Licensed by and in good standing with the Board,
- (b) The licensee or firm in which he is associated has completed an acceptable peer review pursuant to Rule 14.3(d), or has completed the Board's Quality Review both including a minimum of one category of

compilation, review, and/or audit with no substandard report within three

- years immediately preceding the appointment,
- (c) The licensee or his firm has no pending investigation or disciplinary matters by the Board, and
- (d) Shall have a minimum of 5 years experience in accounting and auditing, including experience in the type of report he will be reviewing.
- (e) Shall have served as a quality reviewer for a minimum of one year, and
- (f) Shall be approved by the QR Consultant.

14.6 QR CONSULTANT

The QR consultant shall have the following qualifications:

- (a) Licensed by and in good standing with the Board,
- (b) The licensee or firm in which he is associated has completed an acceptable peer review pursuant to Rule 14.3(d), or has completed the Board's Quality Review both including a minimum of one category of compilation, review, and/or audit with no substandard report within three years immediately preceding the appointment,
- (c) The licensee or his firm has no pending investigation or disciplinary matters by the Board, and
- (d) Shall have a minimum of 5 years experience in accounting and auditing, including experience in the type of reports he will be reviewing, and
- (e) Shall be approved by the Board.

14.7 QR PROCEDURE

(a) The QR process shall include:

- (1) Review and classification of the report and a statement of reasons for the classification by an assigned reviewer.
- (2) Review of that classification and reasons therefore by the QR team captain who may make appropriate changes after consulting with the assigned reviewer.
- (3) Review of that classification and reasons therefore by the Board's QR Consultant who may make appropriate changes after consulting with both the assigned reviewer and team captain.

14.8 QR CLASSIFICATIONS

The QR will result in a determination whether each report is acceptable, marginal, or substandard.

"Acceptable" means that the report contains no deficiencies or only minor deficiencies.

"Marginal" means that the report contains more serious deficiencies, such as departures from the technical reporting or accounting standards set forth in Board Rule 8, but of the type that will not render the statement materially inaccurate or misleading.

"Substandard" means that the report is materially inaccurate or misleading; such a report violates one or more significant reporting standards, seriously departs from Generally Accepted Accounting Principles, or does not include material disclosures necessary for a fair presentation.

"Deficiency" means a failure to comply with any provision in the Professional Standards identified in Board Rule 8.

14.9 NOTIFICATION AND RESPONSE

(a) The licensee will be notified in writing of the QR classification of each report. Notice of marginal and substandard reports shall be by certified mail, return receipt requested. No response is necessary for an "acceptable" or "marginal" classification, and QR will be closed.

If the licensee who has received a marginal classification disagrees, he should notify the Board in writing within 30 days. The notification will instruct the licensee who has received a substandard classification to reply to the Board in writing within 30 days.

(b) Marginal Classification. If the licensee agrees with the marginal classification, no reply is necessary and the QR is complete. However, if the licensee disagrees with the classification, he may, but is not required to file a notice including an explanation of his objection, citations to applicable professional standards, and any relevant documentation supporting his objection to the classification for consideration by QR Consultant. This notice must be written and filed with the Board within 30 days. After reconsideration of the Summary of Deficiencies and Comments, original documents from the licensee, and any supplemental information from the licensee that may have been requested by the QR Team, the QR Consultant will affirm the classification of or reclassify the licensee's report. The licensee will be notified of this result in writing for informational purposes. The QR will be closed and the licensee will remain in the same QR cycle.

(c) Substandard Classification.

(1) First substandard classification.

(A) Within 30 days the licensee shall respond in writing to the Board's notification of a first substandard classification stating whether he agrees or disagrees with that classification.

(B) If the licensee agrees with the substandard classification, the Board shall request that the licensee obtain 16 hours of CPE in specific subjects. In the event there is another substandard classification on a different type of report in the same QR cycle, additional CPE may be requested. Said CPE is intended to be educational, for the purpose of improving the quality of the licensee's reports, rather than disciplinary in nature, shall not be self-study, and shall be approved in advance by the Board's Executive Director. The licensee shall complete said CPE hours and deliver acceptable documentation thereof to the Board on or before June 30 of the following year.

(C) If the licensee disagrees with the substandard classification, he may deliver written notice to the Board within 30 days explaining the objection to the classification, citation to applicable professional standards and any relevant documentation supporting the licensee's objection to the classification. The QR Consultant shall review the Summary of Deficiencies and Comments, original documents from the licensee, and any supplemental information from the licensee that may have been requested by the QR Team, and will affirm the classification of, or reclassify the licensee's report. The licensee will be provide written notice of the QR Consultant's review of the report by certified mail, return receipt requested.

(D) The licensee can request that the QR Committee review the QR Consultant's reconsideration of the classification of the licensee's report. Said request shall be filed with the Board in writing within 30 days.

(E) The QR Committee will consider the classification based upon all records considered by the QR Consultant as described by paragraph (b) and determine the appropriate classification for the report. The licensee will be notified of the Committee's classification of the report in writing by certified mail, return receipt requested.

(F) The licensee can appeal the QR Committee's decision on the classification, and obtain a hearing by the Board by filing a written notice of appeal with the Board within 30 days. The Board shall notify the licensee of the time and place of the hearing and shall consider the classification of the report based solely upon the record considered by the QR Consultant and QR Committee, as per paragraph (b). When the evidence of record that the report is substandard is considered, the Board will consider all relevant facts. Should the facts show convincingly that the report is substandard, the Board will consider the report substandard. If the evidence of record is equally balanced, or the Board cannot find that the facts are convincing, the Board shall determine that the report is not substandard. Should the Board find that the report is substandard, it may require appropriate action by the licensee that is designed to assure that the licensee's professional services are performed consistent with applicable professional standards as provided under these procedures.

(G) Following any first substandard classification of the report that becomes final prior to appeal to the Board, the licensee will be requested to obtain the 16 hours of CPE as stated in paragraph 14.9(c)(1)(B) above. Upon request of the licensee, or should the licensee not agree to obtain CPE described above, fail to complete said CPE, or fail to timely deliver satisfactory documentation thereof to the Board, the Board shall conduct a hearing to determine whether the licensee has failed to comply with the Code of Professional Conduct and the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq. and, if so, the necessary corrective action to be taken to improve the quality of the licensee's reports or to otherwise protect the public interest.

(2) Second consecutive substandard report.

(A) Within 30 days the licensee shall respond in writing to the Board's notification of a second substandard classification stating whether he agrees or disagrees with that classification.

(B) If he agrees with the classification, the licensee will be requested to submit all of the types of reports classified as substandard to a licensee approved by the Board for pre-issuance review pursuant to the Board's current Pre-Issuance Review Procedures that shall be provided to the licensee.

(C) If the licensee disagrees with the substandard classification, he will be instructed to file notice including an explanation of his objection to the classification, citation to applicable professional standards, and any relevant documentation supporting his position for reconsideration by QR Consultant. The provisions set forth in subparagraph 14.9(c)(1)(D-G) for reconsideration by the QR Consultant, for review by the QR Committee and appeal to the Board are also applicable to second consecutive substandard reports.

(D) Upon appeal, should the Board find that the report is substandard, it may require that the licensee take action deemed appropriate by the Board to assure the licensee's professional services are performed consistent with applicable professional standards or to otherwise protect the public interest.

(E) If at any stage of the QR procedure in this subparagraph 14.9(c)(2) pertaining to second consecutive substandard reports, the licensee fails to respond to the notice of the classification of the report as substandard in the original review or upon reconsideration by the QR Consultant or review by the QR Committee, the Board will determine whether to schedule a hearing to find whether the licensee's report is substandard and whether the Board shall require the licensee to obtain pre-issuance review and subsequent QR pursuant to the Board's current Pre-Issuance Review Procedures or take other action appropriate to protect the public interest.

(3) Third consecutive substandard report.

(A) Within 30 days the licensee shall respond in writing to the Board's notification of third substandard classification stating whether he agrees or disagrees with that classification.

(B) If the licensee agrees with the classification, the Board will determine whether to conduct a hearing to consider whether the licensee's report violates the Board's Code of Professional Conduct and the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq.

(C) If the licensee disagrees with the substandard classification, he will be instructed to file notice including an explanation of the objection to the classification, citation to applicable professional standards and any relevant documentation supporting his position for consideration by QR Consultant.

(D) The procedure set forth in subparagraph 14.9(c)(1)(D-G) for reconsideration by the QR Consultant, for review by the QR Committee and appeal to the Board are also applicable to third consecutive substandard reports.

(E) Upon appeal, should the Board find that the report is in violation of the Code of Professional Conduct or the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq., it may take appropriate action to protect the public interest.

(F) If at any stage of the QR procedure in this paragraph 14.9(c)(3), the licensee fails to respond to the notice of the classification of the report as substandard in the original review or upon review by the QR Consultant or review by the QR Committee, the Board will determine whether to schedule a hearing to determine whether the licensee has violated the Board's Code of Professional Conduct or the Public Accountancy Act of 1975, Ark. Code Ann. § 17-12-101 et seq., and the appropriate action to be taken as a result of the violations found.

(G) Consent orders. At any stage in the QR process, when a licensee will agree not to perform any further reports that have been classified as substandard or to other appropriate action to protect the public interest, the Board may resolve the controversy by an appropriate Consent Order.

14.10 PRE-ISSUANCE REVIEW PROCEDURES

(a) Pre-Issuance Reviewer (Reviewer) shall be a CPA or PA currently holding an Arkansas license to practice public accountancy, who has undergone quality or peer review within the past 3 years with reports thereon determined to be acceptable pursuant to Rule 14.3(d), and approved by the Board prior to performing pre-issuance reviews for the subject Accountant (Respondent). Prior to performing any pre-issuance review services, the Reviewer shall deliver a written confirmation to the Board to provide pre-issuance review of each financial statement or related attestation report (cumulatively "Report") prepared by the subject respondent for the period of the engagement. The Respondent whose

Reports are being reviewed shall be solely responsible for any expense for the pre-issuance review.

(b) Reviewer shall review, prior to release to Respondent's client, each Report as identified above to determine compliance with professional standards identified in Board Rule 8 or otherwise applicable to the particular type of Report and shall authorize the release of a Report only after making a written determination that the Report complies with said standards. In the event a submitted Report does not comply with said standards, the reviewer shall provide written comments or instructions for the Respondent to revise the Report in compliance with applicable professional standards.

(c) Reviewer shall maintain a pre-issuance review file on each Report review performed. The file shall contain each original Report submitted to reviewer, the reviewer's written comments or instructions in any form regarding necessary revisions for the Report to comply with professional standards, any revised Report(s) and the Report approved for release to the client. Reports reviewed and found acceptable with no change shall be clearly noted on the file Report, "Accepted-No Change Required".

(d) Reviewer shall maintain the pre-issuance review files for a minimum of five years after each pre-issuance review engagement is completed and shall make said records available to the Board upon request.

(e) Reviewer shall submit a written report to the Arkansas Board of Public Accountancy every ninety (90) days following the date of the Reviewer's confirmation to the Board. The report shall contain a summary of the number and type of Reports reviewed, number of Reports with no change required, and number of Reports requiring amendment. For Reports requiring change, a copy of each original Report submitted by Licensee, Reviewer notations, and/or comment sheet(s) and the revised and approved Report(s) must accompany the report.

(f) Reviewer may recommend in writing with accompanying supporting documentation that the Respondent be released from continuing pre-issuance review. Should the Board determine that the Respondent appears to have demonstrated an ability to issue Reports in compliance with applicable professional standards without the necessity of continuing pre-issuance review, it shall terminate the pre-issuance review, but may require the Respondent to participate in annual quality review for a specific or indefinite term.

14.11 PEER REVIEWER STANDARDS

(a) In order to qualify to perform peer review for the exemption from Quality Review requirements of 14.3, an individual licensee must have the applicable qualifications for reviewers set forth in Rules 14.4, or supervisors set forth in Rules 14.5, except 14.5(f) for team captains.

(b) An individual peer reviewer not licensed or registered in Arkansas under Ark. Code Ann. § 17-12-301 et seq., shall register with the Board pursuant to Ark. Code Ann § 17-12-311.

(c) The individual CPA or PA and firm shall register with the Board and obtain documentation of Board approval of the peer review registration prior to performing peer review services in Arkansas.